

Message Text

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AMEMBASSY LONDON

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USMISSION OECD PARIS

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AMEMBASSY TAIPEI

C O N F I D E N T I A L TOKYO 15904

E.O. 11652: GDS

TAGS: ETRD, JA, TW

SUBJECT: JAPAN-EC ECONOMIC PROBLEMS

REF: (A) LONDON 16496, (B) USEC 10282

SUMMARY. JAPANESE FEEL EMBATTLED IN FACE OF PROLIFERATING
EC OFFENSIVE AGAINST JAPANESE EXPORTS TO EUROPE. GOJ AND

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PRIVATE INDUSTRY OFFICIALS DO NOT BELIEVE JAPAN'S

PERFORMANCE JUSTIFIES EC ATTACKS, AND ARE PRIVATELY PESSIMISTIC THAT MANY EFFECTIVE MEASURES CAN BE TAKEN ON JAPANESE SIDE TO INCREASE EC IMPORTS. THEY NEVERTHELESS WANT TO DILUTE THE POLITICAL EMOTION THEY BELIEVE IS BEHIND EC CHARGES AND ARE THUS PREPARED TO SUPPORT PRIVATE INDUSTRY ARRANGEMENTS FOR EXPORT RESTRAINT AND IMPORT PROMOTION. END SUMMARY.

1. WE HAVE COME AWAY FROM INFORMAL TALKS WITH FOREIGN OFFICE, MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AND PRIVATE INDUSTRY REPRESENTATIVES OVER THE PAST WEEK WITH A CLEAR SENSE THAT THE JAPANESE FEEL EC AND ESPECIALLY GREAT BRITAIN HAVE CHOSEN JAPAN AS A SCAPEGOAT TO DIVERT ATTENTION FROM MORE FUNDAMENTAL CAUSES OF EUROPEAN ECONOMIC WOES. ALTHOUGH JAPAN'S EXPORTS TO EC DURING JANUARY-JULY ROSE 14.1 PERCENT OVER SAME PERIOD LAST YEAR TO REACH \$3.7 BILLION (FOB) AND AT \$2 BILLION (CIF) IMPORTS HAVE DECLINED SLIGHTLY, THE TRADE BALANCE IN JAPAN'S FAVOR IS BEGINNING TO SHRINK AS JAPAN'S ECONOMY CONTINUES TO RECOVER FROM THE LONG RECESSION, ALBEIT AT A SOMEWHAT SLOWER PACE THAN HOPED. FURTHERMORE THE JAPANESE ASSERT THAT SINCE THERE WAS ONLY A RELATIVELY SMALL \$500 MILLION FAVORABLE BALANCE ON CURRENT ACCOUNT FOR 1975, EC CANNOT SUPPORT CONTENTION THAT THE OVER-ALL ECONOMIC RELATIONSHIP IS UNACCEPTABLY SKEWED IN JAPAN'S FAVOR. NEITHER DO THEY BELIEVE THAT JAPAN'S 1.9 PERCENT SHARE OF TOTAL EC IMPORTS IN 1975 WARRANTS THE ATTENTION IT IS CURRENTLY GETTING. IN THE JAPANESE VIEW, MUCH OF EUROPEAN DISSATISFACTION IS SIMPLY A REACTION TO THE FIVE-FOLD INCREASE IN JAPAN-EC TRADE BEGINNING IN 1971, AND THEY POINT OUT THAT PERCENTAGE INCREASES FROM ALLOW BASE GIVE A MISLEADING PICTURE. JAPAN'S TRADE SURPLUS WITH BRITAIN, FOR EXAMPLE, RANKS FIFTH AMONG THOSE ENGAGED BY BRITAIN'S TRADING PARTNERS.

2. SIMILARLY THE JAPANESE SUSPECT THAT THE SIGNIFICANCE OF INCREASES IN THEIR EXPORTS OF CERTAIN PRODUCTS HAS BEEN DISTORTED FOR DOMESTIC POLITICAL REASONS. IT IS TRUE THAT MACHINERY EXPORTS TO THE EC ROSE 34 PERCENT

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FROM JANUARY TO JULY THIS YEAR, INCLUDING A 60 PERCENT RISE IN THE VALUE OF AUTOMOBILE SALES, BUT THE JAPANESE SHARE OF EUROPEAN MARKETS REMAINS FAR BELOW OTHER COUNTRIES. IN FACT, BY VOLUME JAPANESE EXPORTS OF STEEL TO THE EC IN 1975 EQUALLED ONLY ONE PERCENT OF EC PRODUCTION. FURTHERMORE, BY VALUE JAPANESE STEEL EXPORTS TO THE EC THROUGH JULY FELL 43 PERCENT UNDER THE SAME PERIOD LAST YEAR. ADMITTEDLY THIS WAS

PARTIALLY AS A CONSEQUENCE OF THE INFORMAL EXPORT RESTRAINT AGREEMENT, BUT EUROPEAN DEMAND FOR JAPANESE STEEL HAS ALLEGEDLY REMAINED SLUGGISH AND EVEN AGREED CEILING OF 123 MILLION TONS WILL NOT BE REACHED IN 1976.

3. REGARDLESS OF THE MERITS OF EUROPEAN CHARGES, THE EC NOW TAKES JUST OVER 10 PERCENT OF JAPANESE EXPORTS AND THE GOJ IS TAKING A SERIOUS VIEW OF ITS ECONOMIC RELATIONS WITH EUROPE. MEMORIES OF TRADE RESTRICTIONS TAKEN AGAINST JAPAN IN THE PAST PERSIST. HOWEVER ANNOYED THEY MAY FEEL AT WHAT THEY REGARD AS SOUR GRAPES, BAD-MOUTHING ON THE PART OF NON-COMPETITIVE PRODUCERS, THE JAPANESE RECOGNIZE THAT THEY CANNOT AFFORD TO LET THE SITUATION GET OUT OF HAND TO THE LONG TERM DETRIMENT OF THEIR TRADE PROSPECTS. IN THEORY THE SOLUTION IS OBVIOUS: INCREASE IMPORTS INTO JAPAN FROM THE EC. IN PRACTICE THE JAPANESE PRIVATELY DOUBT THAT MUCH CAN BE DONE BEYOND RELYING ON ECONOMIC RECOVERY TO REFLATE OVER-ALL DEMAND. JAPANESE IMPORTS FROM THE EC HAVE BEEN HEAVILY CONCENTRATED IN HEAVY INDUSTRIAL AND CHEMICAL PRODUCTS (62 PERCENT OF ALL IMPORTS FROM THE EC IN 1975). UNTIL AND UNLESS JAPANESE CAPITAL INVESTMENT PICKS UP, IT IS UNLIKELY THAT JAPANESE PURCHASES OF THESE PRODUCTS WILL INCREASE SIGNIFICANTLY.

4. AS FOR FINISHED PRODUCTS AND CONSUMER GOODS, THE JAPANESE CONTEND THAT THE LACK OF EUROPEAN SUCCESS IN MARKETING IN JAPAN IS NOT PRIMARILY ATTRIBUTABLE TO NTBS. RATHER THEY ASSERT THAT THE EUROPEANS HAVE SIMPLY NOT MADE THE NECESSARY EFFORT TO ADAPT PRODUCTS TO THE JAPANESE MARKET AND TO ESTABLISH EFFECTIVE DISTRIBUTION NETWORKS. (ONLY ONE DISTRIBUTOR, FOR EXAMPLE, HANDLES BRITISH AUTOMOBILES.)
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A FEW PRODUCTS SUCH AS SCOTCH WHISKY HAVE SUCCESSFULLY MADE THE TRANSITION FROM BEING A PRESTIGE IMPORT ITEM TO ONE SOLD THROUGH MASS MARKETING TECHNIQUES. REGARDLESS OF WHAT KIND OF STEPS THE JAPANESE TAKE TO PROMOTE IMPORTS-- AND THEY SAY THEY ARE PREPARED TO DO SO--IF EUROPEAN CONSUMER GOODS ARE TO SELL WELL HERE, THE JAPANESE ASSERT, THE BURDEN MUST FALL MOSTLY ON THE EXPORTER. FINALLY, ALTHOUGH THE JAPANESE MAY BE OBLIGED TO TAKE SPECIAL STEPS TO ENCOURAGE THE IMPORTATION INTO JAPAN OF EUROPEAN PRODUCTS, OR TO RESTRAIN JAPANESE EXPORTS TO EUROPE, THEY CANNOT HELP BUT BE SENSITIVE TO THE DANGER THAT THESE MEASURES MAY BE PERCEIVED IN THE US AS EITHER DIVERTING PURCHASES FROM THE US TO WEST EUROPE, OR AS REDIRECTING JAPANESE EXPORTS TO THE US. EITHER WOULD OF COURSE

HAVE AN ADVERSE IMPACT ON THEIR FAR MORE IMPORTANT
ECONOMIC RELATIONSHIP WITH THE U.S.
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